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[1](#)1. (SBU) SUMMARY: Japan has the fourth-highest poverty rate among the 30 OECD members, with poverty among the elderly roughly 50 percent above the OECD average, according to a report issued by the Organization for Economic Cooperation and Development (OECD). However, according to a Japanese expert, Dr. Aya Abe, while Japan's official statistics understate poverty because of disincentives for the unemployed to apply for government assistance, income-based measures like the OECD's overstate Japan's poverty rate. Dr. Abe believes more nuanced analysis is needed for policy makers to address a long-term trend many Japanese politicians and opinion leaders see of growing income inequality in Japan. Nevertheless, with an uncertain global economic outlook and Lower House elections looming, the OECD report's unsettling news may exacerbate voters' economic anxiety and add fuel to the debate over social welfare as politicians position themselves for expected elections. END SUMMARY.

[1](#)2. (U) A new OECD report on income inequality, "Growing Unequal?", states inequality is rising in Japan and throughout the OECD. According to the report, which defines poverty as the proportion of people living on less than half the median income, Japan has the fourth-highest poverty rate among the 30 OECD members. Measured this way, poverty is particularly pronounced among Japan's elderly, about one-fifth of whom live on less than half Japan's median income; the OECD average is 13 percent. The report also highlights rising levels of childhood poverty, up from 11 percent in 1985 to 14 percent today. According to the report, the increase in income inequality in Japan between the mid-1980s and mid-2000s, a 1.6 point increase in the Gini coefficient, is slightly less than the 2 point OECD average increase. However, this cumulative trend obscures the marked rise in income inequality that Japan experienced during its late-1980s asset bubble and the follow-on lost decade, as poorer households' incomes declined and unemployment increased among young people. Incomes fell during the current decade as well, with the largest declines among the top earners, so that income inequality has declined since

12000.

13. (U) NOTE: The OECD report's chosen measure of poverty -- the proportion of people whose income is less than half the median income -- can be misleading. Relying on income ignores asset accumulation. Assets are a significant contributor to overall wealth, consumption, and standards of living, especially among the elderly. Because Japan's elderly are a large and growing share of the population, income-based poverty measures and Japan's Gini coefficient will rise even if standards of living and Japan's wealth distribution are unchanged. (Refs B,C) Additionally, the choice of a relative, rather than absolute, poverty line may facilitate cross-country comparisons, but does not adequately capture the changes in living standards that accompany shifts in the income distribution, even when those shifts are not accompanied by widening inequality. END NOTE.

14. (SBU) According to Dr. Aya Abe, a poverty and inequality expert at Japan's National Institute of Population and Social Security Research (IPSS), while the OECD report's basic message is accurate, crafting the right policy responses requires a more nuanced analysis of Japan's poverty and inequality dynamics. As the OECD report states, the improvement in Japan's Gini coefficient since 2000 stems from Japan's top earners' incomes falling faster than the rest of the population's incomes have fallen, and is part of a long-term trend of growing inequality. The recent improvement in the Gini coefficient therefore must be understood in the context of increasing poverty in Japan. Three characteristics of relative poverty in Japan are

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particularly important: the high and relatively constant poverty rate among the elderly; rising rates among young Japanese and among children; and uneven geographic distribution that, in the current legal framework, demands resources from the local governments least able to provide them.

POVERTY AMONG THE ELDERLY

15. (SBU) Almost half of those receiving public assistance in Japan are elderly. Since public assistance is vigorously means-tested, recipients have low or no income, are without assets, and lack family support. Because Japan's pension system was introduced only in the 1960s, the "late elderly" (aged 75 and older) frequently do not qualify for further pensions from the state or their employer due to vesting requirements. Instead, they rely solely on the universal Basic Pension, which pays just 52,500 yen per month (about \$425) on average. Although 96 percent of Japanese over age 60 receive Japan's Basic Pension (Kiso Nenkin), the number of seniors receiving public assistance indicates this income is insufficient on its own.

POVERTY AMONG THE WORKING-AGE POPULATION

16. (SBU) Abe's research shows those who "deviate from the normal life path" by failing to secure full-time employment upon graduation, failing to marry and establish their own household, getting divorced, or suffering from a medical problem or other disability are particularly vulnerable to poverty and likely to require public assistance. This situation means those who came of age after the collapse of the bubble economy were -- and tend to remain -- disadvantaged.

17. (SBU) As Japan's lost decade reshaped its labor markets, a cohort of young people found part-time work or began dispatch labor, and have not found a way back into traditional corporate Japan. These 25-35 year olds are delaying marriage and putting off having children, declining to enroll in voluntary insurance and pension plans, and

failing to pay the premiums they owe for the mandatory Basic Pension because of their underemployment. In the absence of family support, they fall into poverty, and according to Abe and others, the most severely affected individuals seem likely to remain on public assistance throughout their lifetimes.

POVERTY AMONG CHILDREN

¶18. (SBU) In Japan, as elsewhere, children born to single mothers are particularly at risk of living in poverty. Abe's analysis shows childhood poverty occurs when an adverse event affects the family, such as a parent losing his or her job, divorce, or the onset of a debilitating illness. If family support networks fail, these families fall into poverty, increasing the number of children receiving public assistance. In this way, rising childhood poverty in Japan can be seen as a subset of the problem of poverty among adults.

JAPAN'S PUBLIC ASSISTANCE SYSTEM

¶19. (SBU) Japan's welfare system is based in the 1950 Public Assistance Law, making it the oldest portion of Japan's social safety net. Built on the principle of state support to fill the gap between a citizen's best effort and the minimum cost of living, the law calls for rigorous means testing and requires family members to provide for one another. Assistance is provided primarily through cash transfers, except for some in-kind public services, such as healthcare. Although the central government sets eligibility requirements and benefit levels, public assistance is

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administered locally, including local investigation of applicants and significant local government financial contributions.

GEOGRAPHIC DISTRIBUTION OF POVERTY

¶10. (SBU) Areas like Okinawa and Hokkaido, with historically sluggish growth, have high poverty rates. More surprisingly, so does Kyushu. Even though that island has been regarded as an area of relative growth, economic activity is increasingly concentrated in Fukuoka, leaving rural Kyushu behind. The local governments in these regions face declining tax revenue as businesses close, young people migrate to more vibrant areas, and citizens age. These same forces, however, can lead more residents to apply for public assistance. Since the central government's contribution will not automatically change in response to these local conditions, the local government's budget can be overwhelmed.

¶11. (SBU) According to Abe, this problem creates a strong incentive for local government officials to discourage potential applicants from filing for public assistance. Since the eligibility criteria are straightforward and local governments are legally bound to assess each applicant, the most effective way to minimize the burden of public assistance expenditures on local government budgets is to discourage applications. Because the inability to work -- rather than the inability to find work -- is one of the eligibility criteria, when potential applicants are asked to look for work rather than apply for public assistance, most understand the implicit message and do not apply, believing their application will be denied.

¶12. (SBU) This dynamic, Abe told Econoff, can cause underreporting of poverty as measured in the traditional way, by rates of public assistance receipt, and can lead to higher-than-expected poverty rates when poverty is assessed in other ways, such as the income-based measure of relative poverty invoked in the OECD report.

COMMENT

¶13. (SBU) A 2006 OECD report highlighting rising inequality in Japan tapped Japanese voters' anxiety with the inequality they have come to commonly -- if inaccurately -- attribute to Prime Minister Koizumi's economic reforms. Koizumi's successor made his strategy to address the income gap a part of his legacy. (Refs B,C) Inequality has continued to be a major political theme, and the Democratic Party of Japan (DPJ) played on it in the lead up to its 2007 Upper House election win. The DPJ's recent joint statement with Rengo, the trade union confederation, (Ref A) emphasizes voters' livelihood concerns, demonstrating the issue's continued political salience. With an uncertain global economic outlook and Lower House elections looming, the OECD report's unsettling news could provide fodder for politicians and opinion-makers in the run-up to elections.

SCHIEFFER